

**MILFORD MUNICIPAL UTILITIES**  
(A Component Unit of the City of Milford, Iowa)

INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2014

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MILFORD MUNICIPAL UTILITIES  
MILFORD, IOWA

JUNE 30, 2014

OFFICIALS

Before January 1, 2014

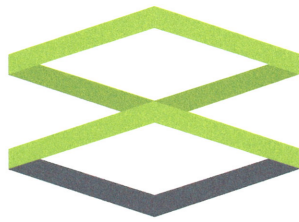
<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Tom Cooper	Trustee (Chairman) (resigned September 30, 2013)	December 31, 2015
Wanda Nelson	Trustee (Vice Chairman)	December 31, 2018
James Studer	Trustee	December 31, 2013
Keith Wurtz	Trustee	December 31, 2014
Lisa Duffy	Trustee	December 31, 2017
Todd Johnson	Trustee (appointed September 30, 2013)	December 31, 2015

After January 1, 2014

Keith Wurtz	Trustee (Chairman)	December 31, 2014
Todd Johnson	Trustee (Vice Chairman)	December 31, 2015
Michael Anderson	Trustee	December 31, 2019
Lisa Duffy	Trustee	December 31, 2017
Wanda Nelson	Trustee	December 31, 2018

Eric Stoll	General Manager
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Paula Nordblad	Office Manager / Board Secretary
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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Milford Municipal Utilities  
Milford, IA 51351

### Report on the Financial Statements

We have audited the accompanying basic financial statements of the electric and water enterprise funds of Milford Municipal Utilities (Utilities), a component unit of the City of Milford, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the electric and water enterprise funds of Milford Municipal Utilities at June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the electric and water enterprise funds of Milford Municipal Utilities, a component unit of the City of Milford, and do not purport to, and do not, present fairly the financial position of the City of Milford as of June 30, 2014 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Report on Summarized Comparative Information**

We have previously audited the Utilities' June 30, 2013 financial statements, and our report dated September 17, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it had been derived.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 8 and 28 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Milford Municipal Utilities' basic financial statements. The supplementary information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2014 on our consideration of Milford Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Milford Municipal Utilities' internal control over financial reporting and compliance.

*Winther, Stave & Co., LLP*

October 29, 2014  
Spencer, Iowa

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Milford Municipal Utilities (MMU) provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### 2013 - 2014 FINANCIAL HIGHLIGHTS

- MMU's operating revenues increased 11.95%, or \$468,591, from fiscal 2013 to fiscal 2014.
- Operating expenses increased 7.28%, or \$234,239, in fiscal 2014 from fiscal 2013.
- The MMU's net position increased 8.31%, or \$868,152, during 2014.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of MMU's financial activities.

Financial statements for each enterprise fund report information about MMU's operations.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison to MMU's budget for the year and a schedule of retiree health plan funding progress.

The Supplementary Information in Schedules 1 and 2 provides detailed information about the usage levels of each utility.

### REPORTING MMU'S FINANCIAL ACTIVITIES

#### Financial Statements

Milford Municipal Utilities utilizes proprietary funds to account for MMU's enterprise funds and to report business type activities. MMU maintains two funds to provide separate information for the electric and water funds, which are considered to be major funds of MMU.

The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

Net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in combined net position for the electric and water funds.

Net Position at Year Ended June 30, 2014		
	2014	2013
Current and other assets .....	\$ 3,369,492	\$ 3,423,513
Capital assets - net of depreciation .....	<u>12,162,570</u>	<u>11,759,550</u>
Total assets	<u>15,532,062</u>	<u>15,183,063</u>
Long-term debt outstanding .....	3,825,286	4,347,154
Other liabilities .....	<u>386,056</u>	<u>383,341</u>
Total liabilities	<u>4,211,342</u>	<u>4,730,495</u>
Net position:		
Net investment in capital assets .....	8,596,602	8,051,015
Restricted .....	321,474	354,240
Unrestricted .....	<u>2,402,644</u>	<u>2,047,313</u>
Total net position	<u>\$11,320,720</u>	<u>\$10,452,568</u>

Changes in Net Position for the Year Ended June 30, 2014		
	2014	2013
Revenues:		
Total operating revenues .....	\$ 4,389,762	\$ 3,921,171
General revenues:		
Interest and other income .....	<u>10,518</u>	<u>10,950</u>
Total revenues	<u>4,400,280</u>	<u>3,932,121</u>
Program expenses:		
Business type activities .....	<u>3,532,128</u>	<u>3,346,226</u>
Total expenses	<u>3,532,128</u>	<u>3,346,226</u>
Change in net position	868,152	585,895
Net position - beginning of year .....	<u>10,452,568</u>	<u>9,866,673</u>
Net position - end of year	<u>\$11,320,720</u>	<u>\$10,452,568</u>



## **INDIVIDUAL MAJOR FUND ANALYSIS**

- Electric Fund revenues showed an increase of \$210,173. Revenue from customers increased \$286,689 due to a 5% rate increase, an extremely cold heating season, and increased industrial load. This was offset by a decrease in Neal #4 and Diesel credits of \$72,889. The Electric Fund operating expenses increased \$272,566, attributable to the increase in expense associated with Neal 4, purchased power from NIMECA, bonding expense and depreciation. The ending fund balance was \$7,646,216, an increase of \$386,352 from last year.
- Water Fund revenues increased by \$258,418 due to a 10% rate increase and the drought. Operating expenses decreased \$38,327, which can be attributed to maintenance as compared to the prior year. The ending fund balance was \$3,674,504, an increase of \$481,800 from the prior year.

## **BUDGETARY HIGHLIGHTS**

MMU's disbursements for business type activities did not exceed the budgeted limit for 2014.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2014, MMU had approximately \$12.2 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net increase (including additions and deletions, net of depreciation) of \$403,020 or 3.43% as compared with last year. Depreciation charges totaled \$539,010 for the fiscal year 2014. Total accumulated depreciation was \$11,121,069 at June 30, 2014. See Note 3 to the financial statements for more information about MMU's capital assets.

## **LONG-TERM DEBT/LIABILITIES**

At June 30, 2014, MMU had \$3,825,286 in revenue bonds outstanding compared to \$4,347,154 at June 30, 2013. Additional information about MMU's long-term debt, including the net OPEB liability, is presented in Notes 4 and 8 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Milford Municipal Utilities remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery for the utmost in reliable products and services.

MMU anticipates electric projects at the Polaris Industries campus and the elevator to upgrade services for their expansions.

MMU has adopted a ten-year Water Master Plan which includes a new water intake and upgrades to the current intake to control the attachment of the invasive zebra mussel, clarifier improvements, filter waste handling improvements, ASR cycle testing and three water main projects. MMU began a twelve month pilot project with the IDNR and Macro Tech's copper ion system in February 2014 which will determine the method to be used to control the zebra mussel. In October 2014 bids will be let for the new water intake construction. The cost for this Zebra Mussel and Water Intake project is expected to be approximately \$1,300,000.

MMU instituted a Water Customer Charge in December 2013. This is expected to cash flow financing of the projects in the ten year plan mentioned above.

A comprehensive electric rate, cost of service, and cash flow study is currently being done by DGR and Associates. This study will show MMU where rates should be using projections through 2020 and how much each rate class should be contributing based on costs to supply that class.

Consistent with the need to invest for the future, MMU joined with other cities and utilities in 1962 to purchase power from the dams on the Missouri River. We have enjoyed receiving this renewable energy ever since. You could say that Milford had the foresight many years ago to invest in renewable energy. In 1976, MMU power supplies were once again getting tight and MMU needed to invest in an additional power source, so MMU became one of the owners of the Neal #4 Generating Station south of Sioux City. In 1997, MMU added 6 MW of diesel generators to the existing 1 MW of older generation in our local power plant, of which all are used for peaking and emergency power use. Once again, MMU joined with other Iowa utilities to take the lead in partnering in renewable energy sources by moving into wind generation. MMU has a share in the Hancock Wind Farm that was put up in 2005 south of Ventura, Iowa. MMU also has a share in the Crosswinds Wind Farm south of Ruthven, Iowa. This amounts to a combined total of 40% for renewable energy. So you can see the goal is simple: try to use proven technologies (like wind) in new ways to control energy costs, improve air quality by enhancing wind energy, and increase Iowa's energy supplies while helping the environment. Even with the additional wind resources, MMU will still need a reliable baseload or intermediate resource to cover our expected load growth, replace existing aging power supplies, and to cover periods when the wind doesn't blow. MMU is now exploring other options to ensure a safe, reliable backup to wind generation. This includes possible agreements with other power suppliers and the installation of natural gas powered turbines.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of MMU's finances and operating activities. If you have questions about this report or need additional information, please contact management at 806 N Avenue, Milford, Iowa 51351.

## **BASIC FINANCIAL STATEMENTS**

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF NET POSITION  
JUNE 30, 2014  
(WITH COMPARATIVE TOTALS FOR 2013)

ASSETS

	Electric Fund	Water Fund	Total 2014	Total 2013
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents:				
Undesignated .....	\$ 380,339	\$ 424,256	\$ 804,595	\$ 516,079
Board designated:				
Improvement and extension .....	47,498	99,559	147,057	162,318
Vehicle and equipment funds .....	190,086	56,049	246,135	250,420
Fuel oil fund .....	12,854		12,854	12,822
Community development fund .....	91,916		91,916	91,685
Total cash and cash equivalents	722,693	579,864	1,302,557	1,033,324
Accounts receivable .....	361,484	181,475	542,959	460,725
Inventory .....	471,991	42,306	514,297	551,317
Prepaid expenses .....	40,270	34,237	74,507	95,086
Other receivables .....	124	314	438	2,826
<b>TOTAL CURRENT ASSETS</b>	<b>1,596,562</b>	<b>838,196</b>	<b>2,434,758</b>	<b>2,143,278</b>
<b>NONCURRENT ASSETS:</b>				
Other assets:				
Purchased service rights - at cost .....	13,470		13,470	13,470
Bond issue cost (net) .....				2,926
Total other assets	13,470		13,470	16,396
Restricted assets:				
Consumers' deposit fund .....	50,391		50,391	50,264
Revenue bond sinking fund .....		26,777	26,777	64,808
Principal and interest reserve .....		116,664	116,664	116,372
CTS - improvement fund .....	294,697		294,697	289,432
Loan proceeds for future capital improvements	259,318		259,318	638,620
Emission allowances .....	18,247		18,247	17,706
Whelan #2 Reserve .....	51,175		51,175	42,664
Neal #4 .....	54,951		54,951	11,530
Deposit for Interconnection WAPA Study .....	151		151	150
Engine maintenance .....	48,893		48,893	32,293
Total restricted assets	777,823	143,441	921,264	1,263,839
<b>TOTAL NONCURRENT ASSETS</b>	<b>791,293</b>	<b>143,441</b>	<b>934,734</b>	<b>1,280,235</b>
<b>CAPITAL ASSETS:</b>				
Capital assets .....	15,790,489	7,493,150	23,283,639	22,391,709
Accumulated depreciation .....	(7,625,168)	(3,495,901)	(11,121,069)	(10,632,159)
<b>TOTAL CAPITAL ASSETS - NET</b>	<b>8,165,321</b>	<b>3,997,249</b>	<b>12,162,570</b>	<b>11,759,550</b>
<b>TOTAL ASSETS</b>	<b>\$10,553,176</b>	<b>\$ 4,978,886</b>	<b>\$15,532,062</b>	<b>\$15,183,063</b>

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF NET POSITION - Continued  
JUNE 30, 2014  
(WITH COMPARATIVE TOTALS FOR 2013)

LIABILITIES AND NET POSITION

	Electric Fund	Water Fund	Total 2014	Total 2013
<b>CURRENT LIABILITIES:</b>				
Accounts payable .....	\$ 207,359	\$ 20,460	\$ 227,819	\$ 241,256
Accrued employee benefits .....	4,326	1,403	5,729	6,280
Accrued payroll .....	30,522	15,680	46,202	43,825
Accrued payroll taxes .....	1,359	929	2,288	2,211
Accrued sales tax .....	6,813	5,158	11,971	8,590
Accrued property tax .....	14,881		14,881	14,870
Accrued wheeling .....	8,686		8,686	8,661
Consumers' deposits .....	38,326	8,413	46,739	41,644
Current portion long-term debt .....	<u>420,258</u>	<u>246,669</u>	<u>666,927</u>	<u>624,701</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>732,530</u>	<u>298,712</u>	<u>1,031,242</u>	<u>992,038</u>
<b>LONG-TERM DEBT:</b>				
Revenue notes payable .....	2,582,296	1,242,990	3,825,286	4,347,154
Less current portion above .....	(420,258)	(246,669)	(666,927)	(624,701)
Net OPEB liability .....	<u>12,392</u>	<u>9,349</u>	<u>21,741</u>	<u>16,004</u>
<b>TOTAL LONG-TERM DEBT</b>	<u>2,174,430</u>	<u>1,005,670</u>	<u>3,180,100</u>	<u>3,738,457</u>
<b>TOTAL LIABILITIES</b>	<u>2,906,960</u>	<u>1,304,382</u>	<u>4,211,342</u>	<u>4,730,495</u>
<b>NET POSITION:</b>				
Net investment in capital assets .....	5,842,343	2,754,259	8,596,602	8,051,015
Restricted for:				
Debt service .....		26,777	26,777	64,808
Capital projects .....	294,697		294,697	289,432
Unrestricted .....	<u>1,509,176</u>	<u>893,468</u>	<u>2,402,644</u>	<u>2,047,313</u>
<b>TOTAL NET POSITION</b>	<u>7,646,216</u>	<u>3,674,504</u>	<u>11,320,720</u>	<u>10,452,568</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$10,553,176</u>	<u>\$ 4,978,886</u>	<u>\$15,532,062</u>	<u>\$15,183,063</u>

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014  
(WITH COMPARATIVE TOTALS FOR 2013)

	Electric Fund	Water Fund	Total 2014	Total 2013
OPERATING REVENUES:				
Residential .....	\$ 1,489,887	\$ 632,197	\$ 2,122,084	\$ 1,780,825
Commercial .....	545,619	489,403	1,035,022	961,088
Demand .....	621,589		621,589	495,262
Tank water sales .....		2,706	2,706	2,360
Meter sales .....		11,904	11,904	17,965
Public authorities .....	98,521		98,521	94,036
Water department .....	39,324		39,324	37,615
Neal #4 credits .....	184,761		184,761	261,853
Diesel credits .....	237,624		237,624	233,421
Consumer penalties .....	6,336	1,421	7,757	7,601
Miscellaneous income .....	19,529	8,941	28,470	29,145
TOTAL OPERATING REVENUES	<u>3,243,190</u>	<u>1,146,572</u>	<u>4,389,762</u>	<u>3,921,171</u>
OPERATING EXPENSES:				
Direct costs .....	1,771,200	113,665	1,884,865	1,752,017
Operating expenses .....	340,318	205,803	546,121	523,862
Administrative expenses .....	701,697	318,222	1,019,919	940,787
TOTAL OPERATING EXPENSES	<u>2,813,215</u>	<u>637,690</u>	<u>3,450,905</u>	<u>3,216,666</u>
OPERATING INCOME	<u>429,975</u>	<u>508,882</u>	<u>938,857</u>	<u>704,505</u>
NON-OPERATING INCOME (EXPENSE):				
Interest income .....	4,349	815	5,164	5,903
Other income .....	4,024	1,330	5,354	5,047
Interest expense .....	(51,996)	(29,227)	(81,223)	(129,560)
TOTAL NON-OPERATING EXPENSES - NET	<u>(43,623)</u>	<u>(27,082)</u>	<u>(70,705)</u>	<u>(118,610)</u>
CHANGE IN NET POSITION	386,352	481,800	868,152	585,895
NET POSITION - BEGINNING OF YEAR .....	<u>7,259,864</u>	<u>3,192,704</u>	<u>10,452,568</u>	<u>9,866,673</u>
NET POSITION - END OF YEAR	<u>\$ 7,646,216</u>	<u>\$ 3,674,504</u>	<u>\$11,320,720</u>	<u>\$10,452,568</u>

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014  
(WITH COMPARATIVE TOTALS FOR 2013)

	Electric Fund	Water Fund	Total 2014	Total 2013
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers .....	\$3,209,720	\$1,103,504	\$4,313,224	\$3,887,389
Cash paid to suppliers .....	(2,187,333)	(303,550)	(2,490,883)	(2,272,051)
Cash paid to employees .....	<u>(261,796)</u>	<u>(173,750)</u>	<u>(435,546)</u>	<u>(398,211)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>760,591</u>	<u>626,204</u>	<u>1,386,795</u>	<u>1,217,127</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets ....	(838,768)	(103,262)	(942,030)	(822,446)
Contributions received from developers .....				
Revenue bond principal repayment .....	(3,269,354)	(241,003)	(3,510,357)	(557,433)
Revenue bond proceeds .....	2,890,000	98,489	2,988,489	1,061,064
Interest paid .....	(51,996)	(29,227)	(81,223)	(129,560)
Restricted bond proceeds used (received) .....	<u>417,401</u>	<u>          </u>	<u>417,401</u>	<u>(638,620)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(852,717)</u>	<u>(275,003)</u>	<u>(1,127,720)</u>	<u>(1,086,995)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest reinvested .....		(360)	(360)	(497)
Interest received from investments .....	4,349	815	5,164	5,903
Other income .....	<u>4,024</u>	<u>1,330</u>	<u>5,354</u>	<u>5,047</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,373</u>	<u>1,785</u>	<u>10,158</u>	<u>10,453</u>
NET INCREASE (DECREASE) IN CASH	(83,753)	352,986	269,233	140,585
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR .....	<u>806,446</u>	<u>226,878</u>	<u>1,033,324</u>	<u>892,739</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 722,693</u>	<u>\$ 579,864</u>	<u>\$1,302,557</u>	<u>\$1,033,324</u>

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS - Continued  
FOR THE YEAR ENDED JUNE 30, 2014  
(WITH COMPARATIVE TOTALS FOR 2013)

	Electric <u>Fund</u>	Water <u>Fund</u>	Total <u>2014</u>	Total <u>2013</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income .....	\$ 429,975	\$ 508,882	\$ 938,857	\$ 704,505
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation .....	361,399	177,611	539,010	503,722
Amortization .....				6,231
(Increase) decrease in:				
Accounts receivable .....	(36,654)	(45,580)	(82,234)	(35,036)
Inventory .....	43,194	(6,174)	37,020	(32,940)
Prepaid expenses .....	14,270	6,309	20,579	16,535
Other receivables .....	(124)	2,512	2,388	(2,197)
Consumer deposits .....	(127)		(127)	9,200
Bond issuance costs .....	2,926		2,926	950
CTS improvement fund .....	(5,265)		(5,265)	(37,177)
Deposit on WAPA study .....	(1)		(1)	(150)
Whelon #2 reserves .....	(8,511)		(8,511)	(14,533)
Emission allowances .....	(541)		(541)	(37)
Neal #4 .....	(43,421)		(43,421)	13,355
Engine maintenance .....	(16,600)		(16,600)	(12,071)
Increase (decrease) in:				
Accounts payable .....	7,011	(20,448)	(13,437)	71,296
Accrued employee benefits .....	578	(1,129)	(551)	7,112
Accrued payroll taxes .....	102	(25)	77	(654)
Accrued payroll .....	3,951	(1,574)	2,377	11,874
Accrued sales tax .....	1,688	1,693	3,381	(428)
Accrued property tax .....	11		11	(1,099)
Accrued wheeling .....	25		25	36
Accrued OPEB .....	3,270	2,467	5,737	7,546
Consumer deposits .....	<u>3,435</u>	<u>1,660</u>	<u>5,095</u>	<u>1,087</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 760,591</u>	<u>\$ 626,204</u>	<u>\$1,386,795</u>	<u>\$1,217,127</u>



MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

Milford Municipal Utilities (Utilities) is a separate and distinct city utility chartered under Iowa Code Section 388. The financial statements of the Utilities include the Electric and Water enterprise funds which provide services to the residents of the City of Milford, Iowa. Milford Municipal Utilities is governed by a five-member Board of Trustees, which is appointed by the Mayor of the City of Milford. Based on the criteria set forth by the Governmental Accounting Standards Board, Milford Municipal Utilities is considered a component unit of the City of Milford. However, the City's audit covers the primary government only; therefore financial information concerning the Utilities is not included.

For financial reporting purposes, Milford Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the component unit are such that exclusion would cause the component unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (a) the ability of the Utilities to impose its will on that organization or (b) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Milford Municipal Utilities has no component units.

**Financial Statements**

The accounts of Milford Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. Individual enterprise funds are reported as separate columns in the financial statements as follows.

Electric Fund - The Electric Fund accounts for the operation and maintenance of the electric distribution system.

Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

**Measurement Focus and Basis of Accounting**

The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Utilities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2014

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Revenue Recognition**

Revenues earned are recorded at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is not considered to have a material effect on the financial statements. The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

**Cash and Cash Equivalents**

For the purposes of the statement of cash flows, the Utilities considers as cash and cash equivalents all unrestricted currency on hand, demand and other deposit accounts with banks or other financial institutions, and certificates of deposits with an original maturity of six months or less.

**Accounts Receivable**

Accounts receivable are recorded at the time service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is estimated and is recognized in the period in which service is provided. Accounts are reviewed annually; accounts considered uncollectable are written off at that time. Management believes there are no material uncollectible accounts at June 30, 2014.

**Inventories**

Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventories are recorded as expenses or capitalized, if applicable, when consumed rather than when purchased.

**Capital Assets**

Capital assets, which include property, plant, and equipment, are stated at cost and set forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling, and transportation has been capitalized.

Interest is capitalized on qualified assets acquired with certain tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Interest of \$32,298 on qualifying assets acquired during the year ended June 30, 2014 was capitalized in the Electric Fund.

Replacements and betterments of capital assets are included in capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

Building and plant .....	20 - 50
Equipment .....	7 - 20
Distribution System .....	20 - 67

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2014

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Restricted Assets**

Funds set aside for payment of the Utilities' revenue notes, common transmission system improvements and other accounts are classified as restricted assets since their use is restricted by applicable note indentures and contractual agreements.

**Current Liabilities**

Accrued wheeling and property taxes represent charges for the transmission of power over the power lines.

**Net Position**

The Statement of Net Position presents the Utilities' assets and liabilities, with the difference reported as net position. Net position is reported in the following categories.

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

**Income Taxes**

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

**Comparative Information**

The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Utilities' financial statements for the year ended June 30, 2013 from which the summarized information was derived.

**Budgets and Budgetary Accounting**

The Board of Trustees of Milford Municipal Utilities submits an annual budget prepared on the accrual basis independent from the City of Milford. The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2014

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Management's Review**

The Utilities has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

**2. CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS**

The Utilities' deposits in banks at June 30, 2014, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreement; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirement of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest Rate Risk - The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the utilities.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2014

**3. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2014 was as follows:

<u>Electric Fund</u>	<u>Electric Plant</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land .....	\$ 58,654			\$ 58,654
Construction in progress .....	<u>86,210</u>	<u>\$ 589,634</u>	<u>\$ 673,844</u>	<u>2,000</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>144,864</u>	<u>589,634</u>	<u>673,844</u>	<u>60,654</u>
CAPITAL ASSETS BEING DEPRECIATED:				
Production Plant:				
Buildings .....	408,546			408,546
Machinery and equipment .....	800,832	236,511		1,037,343
Accessory electric equipment	3,366,415			3,366,415
Neal #4 .....	1,977,604	490,866	50,100	2,418,370
Common transmission system	1,915,131	85,290		2,000,421
Distribution Plant:				
Distribution facilities .....	5,554,690	87,684		5,642,374
Street lights and signal systems	273,222	1,654		274,876
General Plant:				
Transportation equipment .....	412,843	15,144		427,987
Other equipment .....	<u>147,674</u>	<u>5,829</u>		<u>153,503</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	14,856,957	922,978	50,100	15,729,835
Less accumulated depreciation ...	<u>7,313,869</u>	<u>361,399</u>	<u>50,100</u>	<u>7,625,168</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED - NET	<u>7,543,088</u>	<u>561,579</u>		<u>8,104,667</u>
TOTAL CAPITAL ASSETS - NET	<u>\$ 7,687,952</u>	<u>\$ 1,151,213</u>	<u>\$ 673,844</u>	<u>\$ 8,165,321</u>

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2014

**3. CAPITAL ASSETS - Continued**

Capital assets activity for the year ended June 30, 2014 was as follows:

	Water Utility Plant			
<u>Water Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land .....	\$ 58,144			\$ 58,144
Construction in progress .....	<u>46,000</u>	<u>\$ 68,264</u>		<u>114,264</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>104,144</u>	<u>68,264</u>		<u>172,408</u>
CAPITAL ASSETS BEING DEPRECIATED:				
Production Plant:				
Buildings .....	3,237,261			3,237,261
Intakes .....	102,696			102,696
Equipment .....	1,137,951			1,137,951
Mains .....	1,571,431	4,108		1,575,539
Wells .....	198,130			198,130
Storage and Distribution Plant:				
Towers .....	481,619			481,619
Mains, hydrants, and service .	219,740			219,740
Meters .....	268,001	27,028		295,029
General Plant:				
Tools and work equipment ....	<u>68,915</u>	<u>3,862</u>		<u>72,777</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>7,285,744</u>	<u>34,998</u>		<u>7,320,742</u>
Less accumulated depreciation ...	<u>3,318,290</u>	<u>177,611</u>		<u>3,495,901</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED - NET	<u>3,967,454</u>	<u>(142,613)</u>		<u>3,824,841</u>
TOTAL CAPITAL ASSETS - NET	<u>\$ 4,071,598</u>	<u>\$ (74,349)</u>		<u>\$ 3,997,249</u>

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2014

**4. REVENUE NOTES PAYABLE**

A summary of the changes in revenue notes for the year ended June 30, 2014 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Electric Fund:					
Series 2008 revenue notes .....	\$1,290,362		\$1,290,362		
Series 2009 revenue notes .....	554,829		554,829		
Series 2011 revenue notes .....	1,116,459		1,116,459		
Series 2013 revenue notes .....		<u>\$2,890,000</u>	<u>307,704</u>	<u>\$2,582,296</u>	<u>\$ 420,258</u>
Total electric revenue notes	<u>2,961,650</u>	<u>2,890,000</u>	<u>3,269,354</u>	<u>2,582,296</u>	<u>420,258</u>
Water Fund:					
Series 2003 revenue notes .....	485,147		96,886	388,261	99,269
Series 2005 revenue notes .....	900,357		144,117	756,240	147,400
Series 2013 revenue notes .....		<u>98,489</u>		<u>98,489</u>	
Total water revenue notes	<u>1,385,504</u>	<u>98,489</u>	<u>241,003</u>	<u>1,242,990</u>	<u>246,669</u>
<b>TOTAL REVENUE NOTES</b>	<u><b>\$4,347,154</b></u>	<u><b>\$2,988,489</b></u>	<u><b>\$3,510,357</b></u>	<u><b>\$3,825,286</b></u>	<u><b>\$ 666,927</b></u>

**Electric Fund**

During the year ended June 30, 2008, the Utilities issued electric revenue notes (Series 2008) in the amount of \$1,900,000 for the construction costs related to improvements and extension to the Municipal Electric Utility. The notes required monthly payments of \$14,965, including interest at 3.45%, and were refinanced October 1, 2013.

During the year ended June 30, 2010, the Utilities issued electric revenue notes (Series 2009) in the amount of \$1,200,000 for the construction costs related to improvements and extension to the Municipal Electric Utility and to refund the Series 2007 Revenue Notes. The notes required monthly payments of \$16,381, including interest at 4.00%, and were refinanced October 1, 2013.

During the year ended June 30, 2011, the Utilities issued electric revenue notes (Series 2011) in the amount of \$2,243,000 for the construction costs related to improvements and extension to the Municipal Electric Utility. The notes required monthly payments of \$9,147, including interest at 3.75%, and were refinanced October 1, 2013.

During the year ended June 30, 2013, the Utilities issued electric revenue notes (Series 2013) in the amount of \$2,890,000 to refund the Series 2008, 2009, and 2011 Revenue Notes. The notes require monthly payments of \$40,500, including interest at 2.75%, and mature on April 1, 2020.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2014

**4. REVENUE NOTES PAYABLE - Continued**

**Electric Fund – Continued**

The Series 2013 note is secured by future net revenues of the Electric Utility. Annual principal and interest payments on the notes are expected to require less than 46% of net revenues. The total principal and interest remaining to be paid on the notes is \$2,794,500. For the current year, principal and interest paid and total customer net revenues (operating income plus depreciation/amortization expense) were \$364,500 and \$791,374, respectively.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

During the year ended June 30, 2014, the Electric Utility was in compliance with the revenue note provisions.

A summary of the Electric Fund's annual principal and interest requirements to maturity by year is as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015 .....	\$ 420,258	\$ 65,742	\$ 486,000
2016 .....	431,961	54,039	486,000
2017 .....	443,991	42,009	486,000
2018 .....	456,356	29,644	486,000
2019 .....	469,065	16,935	486,000
2020 .....	<u>360,665</u>	<u>3,835</u>	<u>364,500</u>
Total	<u>\$2,582,296</u>	<u>\$ 212,204</u>	<u>\$2,794,500</u>



MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2014

**4. REVENUE NOTES PAYABLE - Continued**

**Water Fund**

On June 24, 2003, the Utilities issued water revenue notes (Series 2003), in the amount of \$1,200,000. The notes accrue a five-year adjustable interest rate based on five-year US Treasury Bonds maturing most closely to July 1, 2008 and July 1, 2013, respectively, plus 100 basis points. The rate cannot go above 5.50%. The rate adjusted from 4.34% to 2.43% on July 1, 2013. The notes require monthly payments of \$8,966, including interest, and mature on May 1, 2018.

On May 25, 2005, the Utilities issued water revenue notes (Series 2005) in the amount of \$1,800,000. The notes accrue a five-year adjustable interest rate based on five-year US Treasury Bonds maturing most closely to July 1, 2010 and July 1, 2015, respectively, plus 25 basis points, currently 2.21%. The notes require monthly payments of \$13,552, including interest, and mature on June 1, 2019.

On June 30, 2014 the Utilities issued water revenue notes (Series 2014) in the amount of \$1,400,000 or such amount as shall be advanced and outstanding. The notes accrue a five-year adjustable interest rate, currently 2.50%, based on five-year US Treasury Bonds maturing most closely to July 1, 2019, July 1, 2024 and July 1, 2029, respectively, plus 100 basis points. The rate shall in no event exceed the prior rate by more than 100 basis points (1%); and the rate so adjusted shall in no event be below 2.5% per annum. The notes require monthly interest only payments until December 31, 2015 and monthly principal and interest payments of \$7,883 beginning February 1, 2016 and mature on July 1, 2034.

The revenue notes are secured by future net revenues of the Water Utility. Annual principal and interest payments on the notes are expected to require less than 40% of net revenues. The total principal and interest remaining to be paid on the notes is \$1,308,299. For the current year, principal and interest paid and total customer net revenues (operating income plus depreciation/amortization expense) were \$272,400 and \$686,493, respectively.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- c. User rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the notes falling due in the same year.

During the year ended June 30, 2014, the Water Utility was in compliance with the revenue note provisions.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2014

**4. REVENUE NOTES PAYABLE - Continued**

**Water Fund - Continued**

A summary of the Water Fund's annual principal and interest requirements to maturity by year is as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015 .....	\$ 246,669	\$ 25,737	\$ 272,406
2016 .....	306,611	19,708	326,319
2017 .....	302,541	12,239	314,780
2018 .....	240,569	6,008	246,577
2019 .....	<u>146,600</u>	<u>1,617</u>	<u>148,217</u>
Total	<u>\$1,242,990</u>	<u>\$ 65,309</u>	<u>\$1,308,299</u>

**5. PENSION AND RETIREMENT BENEFITS**

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.95% of their annual covered salary, and the Utilities are required to contribute 8.93% of covered salary. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$39,141, \$34,921, and \$33,861, respectively, equal to the required contributions for each year.

**6. RATES**

The Water Utility increased user rates for all consumption 10% per year for 2012, 2013, and 2014.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2014

**7. LEASES**

Under a joint ownership agreement with other utilities, the Electric Utility has a 0.347% undivided interest in a 640 MW electric generation station known as George Neal Generating Station No. 4. The Electric Utility's 0.347% ownership interest in George Neal Generating Station No. 4 represents a total investment of \$2,418,370 included in utility plant in service with \$1,220,746 included in accumulated depreciation. Operating costs associated with this plant and depreciation are reflected in the statement of revenues, expenses, and changes in net position.

The Electric Utility leases electrical generation capacity of its share of the Neal 4 plant under operating leases to other utilities or their associations. The lease of the Neal 4 plant is a long-term commitment based on capacity, and the revenues from such leases are included in operating income. The amount is determined by a formula based on usage and totaled \$178,170 for 2014.

**8. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

Plan Description. The Utilities operate a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees, and their families. There are seven active members in the Plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by the Utilities. The Utilities currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and NET OPEB Obligation. The Utilities' annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2014

**8. OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued**

The following table shows the components of the Utilities' annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan, and changes in the Utilities' net OPEB obligation:

	<u>2014</u>
Annual required contribution .....	\$ 4,555
Interest on net OPEB obligation .....	347
Adjustment to annual required contribution .....	<u>835</u>
Annual OPEB cost	5,737
Contributions made .....	<u>5,737</u>
Increase in net OPEB obligation	16,004
Net OPEB obligation - beginning of year .....	<u>16,004</u>
Net OPEB obligation - end of year	<u>\$ 21,741</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the Utilities made no contributions to the medical plan. Plan members eligible for benefits contributed 100% of the premium cost.

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are summarized as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 8,458	0%	\$ 8,458
2013	\$ 7,546	0%	\$ 16,004
2014	\$ 5,737	0%	\$ 21,741

**Funded Status and Funding Progress.** As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$40,342, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$40,342. The covered payroll (annual payroll of active employees covered by the plan) was \$445,857 and the ratio of the UAAL to cover payroll was 9.05%. As of June 30, 2014, there were no trust fund assets.

**Actuarial Methods and Assumptions.** Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2014

**8. OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued**

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2011 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions included a 2.5% interest discount rate. The projected annual medical trend rate is 6%, with an inflation rate of 0% assumed for the purpose of this computation.

Mortality rates are from the 94 Group Annuity Mortality Table applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from IPERS and applying the termination factors used by IPERS. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

**9. COMPENSATED ABSENCES**

Employees of the Utilities accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement, or death. A liability is recorded when incurred and is computed based on rates of pay in effect at June 30, 2014. The Utilities' approximate liability for earned vacation and compensatory time payable to employees at June 30, 2014 is \$37,821.

Employees also accumulate a limited amount of earned but unused sick leave. An employee does not receive any pay for sick leave upon termination, retirement, or death. Since the amount of sick leave to be used is not determinable, no liability has been accrued.

**10. RISK MANAGEMENT**

Milford Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2014

**11. SUBSEQUENT EVENT**

In October 2014, the Utility entered into construction contracts totaling approximately \$1,500,000 for a raw water intake project.

**12. PROSPECTIVE ACCOUNTING CHANGE**

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the utility's proportionate share of the employee pension plan.

## **REQUIRED SUPPLEMENTARY INFORMATION**

MILFORD MUNICIPAL UTILITIES  
BUDGETARY COMPARISON SCHEDULE OF  
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Net</u>
		<u>Original</u>	<u>Final</u>	<u>Variance</u>
REVENUES:				
Charges for services .....	\$ 4,389,762	\$ 3,865,284	\$ 4,379,633	\$ 10,129
Non-operating .....	<u>10,518</u>	<u>10,909</u>	<u>9,315</u>	<u>1,203</u>
TOTAL REVENUES	<u>4,400,280</u>	<u>3,876,193</u>	<u>4,388,948</u>	<u>11,332</u>
EXPENSES:				
Electric .....	2,865,211	2,680,702	2,893,465	28,254
Water .....	<u>666,917</u>	<u>705,384</u>	<u>706,535</u>	<u>39,618</u>
TOTAL EXPENSES	<u>3,532,128</u>	<u>3,386,086</u>	<u>3,600,000</u>	<u>67,872</u>
NET CHANGE IN NET POSITION	868,152	490,107	788,948	79,204
NET POSITION AT BEGINNING OF YEAR ....	<u>10,452,568</u>	<u>10,115,234</u>	<u>10,452,568</u>	
NET POSITION AT END OF YEAR	<u>\$11,320,720</u>	<u>\$10,605,341</u>	<u>\$11,241,516</u>	



MILFORD MUNICIPAL UTILITIES  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2014

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the Utilities.

In accordance with the Code of Iowa, the Milford Municipal Utilities annually adopts a budget following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based upon functions, not by fund. All of the Utilities' disbursements are included in business-type activities function. During the year, one budget amendment increased budgeted disbursements by \$213,914.

MILFORD MUNICIPAL UTILITIES  
FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2012	July 1, 2011	0	\$42,060	\$42,060	0%	\$406,729	10.34%
2013	July 1, 2011	0	\$40,712	\$40,712	0%	\$417,631	9.75%
2014	July 1, 2011	0	\$40,342	\$40,342	0%	\$445,857	9.05%

See Note 8 to the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.

## **SUPPLEMENTARY INFORMATION**

MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND  
 ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND  
 FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>DIRECT COSTS:</b>		
Distribution maintenance .....	\$ 10,775	\$ 3,027
Equipment maintenance .....	13,519	14,744
Neal #4 charges - coal, oil, power generator .....	402,068	403,035
Purchased power .....	6,923	6,613
Purchased power - NIMECA .....	927,827	758,512
Purchased power - WAPA .....	392,692	392,182
Wheeling .....	17,396	17,359
<b>TOTAL DIRECT COSTS</b>	<u>1,771,200</u>	<u>1,595,472</u>
<b>OPERATING EXPENSES:</b>		
Salaries .....	269,017	253,940
Small tools and supplies .....	32,710	25,390
Sub-contractor .....	17,096	11,966
Vehicle expense .....	21,477	28,251
Miscellaneous operating expenses .....	18	121
<b>TOTAL OPERATING EXPENSES</b>	<u>340,318</u>	<u>319,668</u>

MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND  
 ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND - Continued  
 FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

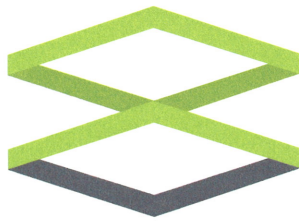
	<u>2014</u>	<u>2013</u>
ADMINISTRATIVE EXPENSES:		
Advertising .....	\$ 385	
Amortization .....		\$ 6,231
Bad debts .....	2,934	5,095
Bond Expense .....	22,537	
Building maintenance - office .....	16,480	13,170
Building maintenance - mowing .....	1,979	3,357
Community development .....	60,363	62,554
Computer repairs and maintenance .....	9,255	8,051
Computer supplies and programs .....	8,853	8,388
Depreciation .....	361,399	321,906
Director fees .....	2,724	2,745
Dues and subscriptions .....	4,881	5,593
Education and safety .....	4,125	4,761
Employee benefits .....	46,269	41,680
Insurance - general .....	42,834	37,852
Laundry and uniforms .....	880	560
Legal and professional .....	19,697	16,649
Maintenance - office equipment .....	930	707
Miscellaneous administrative expenses .....	2,009	690
Office supplies .....	3,067	4,066
Payroll taxes - FICA and IPERS .....	43,085	39,534
Postage .....	5,310	5,101
Property taxes .....	14,903	13,782
Energy efficiency .....	14,944	16,988
Supplies .....	292	98
Telephone .....	3,362	3,562
Travel .....	3,692	849
Utilities and sanitation .....	1,884	1,774
Inventory adjustment .....	2,624	(234)
TOTAL ADMINISTRATIVE EXPENSES	<u>701,697</u>	<u>625,509</u>
 TOTAL	 <u>\$2,813,215</u>	 <u>\$2,540,649</u>

MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND  
 ADMINISTRATIVE EXPENSES FOR THE WATER FUND  
 FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>DIRECT COSTS:</b>		
Distribution maintenance .....	\$ 14,579	\$ 24,976
Equipment maintenance .....	10,964	7,598
Lab .....	10,193	9,807
Plant maintenance .....	4,973	35,709
Product - chlorine and fluoride .....	32,979	40,950
Purchased power .....	<u>39,977</u>	<u>37,505</u>
<b>TOTAL DIRECT COSTS</b>	<u>113,665</u>	<u>156,545</u>
<b>OPERATING EXPENSES:</b>		
Salaries .....	174,643	163,691
Small tools and supplies .....	1,158	6,250
Sub-contractor .....	21,651	32,152
Vehicle expense .....	8,351	2,069
Miscellaneous operating expenses .....	<u>32</u>	<u>32</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>205,803</u>	<u>204,194</u>

MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND  
 ADMINISTRATIVE EXPENSES FOR THE WATER FUND - Continued  
 FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ADMINISTRATIVE EXPENSES:		
Bad debt expense (recovery) .....	\$ (444)	\$ 288
Bond Expense .....	740	
Building maintenance - mowing .....	1,236	2,955
Community development .....		257
Computer repairs and maintenance .....	9,347	4,679
Computer supplies and programs .....	7,570	4,567
Depreciation .....	177,611	181,816
Director fees .....	2,669	2,673
Dues and subscriptions .....	2,396	1,324
Education and safety .....	2,590	2,608
Employee benefits .....	37,610	40,057
Insurance - general .....	21,633	25,105
Laundry and uniforms .....	473	428
Legal and professional .....	5,969	5,534
Maintenance - office equipment .....	773	353
Miscellaneous .....	1,712	1,280
Office supplies .....	2,829	3,665
Payroll taxes - FICA and IPERS .....	28,474	25,366
Postage .....	5,310	4,995
Supplies .....	129	86
Telephone .....	2,012	1,811
Travel .....		140
Utilities and sanitation .....	6,847	6,978
Inventory adjustment .....	736	(1,687)
TOTAL ADMINISTRATIVE EXPENSES	<u>318,222</u>	<u>315,278</u>
 TOTAL	 <u>\$ 637,690</u>	 <u>\$ 676,017</u>



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Milford Municipal Utilities  
Milford, IA 51351

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the electric and water enterprise funds of Milford Municipal Utilities (Utilities) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements, and have issued our report thereon dated October 29, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Milford Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-14 to be a material weakness.



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Milford Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance that is described in Part II of the accompanying Schedule of Finding.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

**Milford Municipal Utilities' Responses to Findings**

Milford Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Milford Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winter, Stave & Co., LLP

October 29, 2014  
Spencer, Iowa

MILFORD MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014

**Part I: Findings Related to the Financial Statements**

**Internal Control Deficiency:**

I-A-14 Segregation of Duties - One employee handles most of the financial duties, including reconciling accounts and recording financial data. One important aspect of internal control is to prevent employees from handling duties which are incompatible.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

**Instances of Noncompliance:**

No matters were noted.

MILFORD MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2014

**Part II: Other Findings Related to Required Statutory Reporting**

II-A-14 Certified Budget - Disbursements during the year ended June 30, 2014 did not exceed the amounts budgeted in the business type activities function.

II-B-14 Questionable Disbursements - We noted expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been documented or noted. The expenditures involved travel expenses to a conference for a high school student who was job shadowing. According to the opinion, it is possible for such expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation - The Utility board should determine and document the public purpose served by those expenditures before authorizing any further payments. If this practice is continued, the Utility should establish written policies and procedures, including the requirement for proper documentation.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

II-C-14 Travel Expense - No expenditures for travel expenses of spouses of officials or employees of the Utilities were noted.

II-D-14 Business Transactions - No business transactions between the Utilities and Utility officials or employees were noted.

II-E-14 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

II-F-14 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

II-G-14 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted. However, we were informed by management that for a period of time the former City of Milford Administrator, who was not authorized on the bank account, was obtaining the bank statements from the bank and delivering the statements to the Utilities. As requested, the bank now allows only authorized individuals access to the bank statements.

II-H-14 Revenue Notes - No instances of non-compliance with the electric and water revenue note provisions were noted.